

**Summary of Consolidated Financial Results**  
for the Interim Period Ended September 30, 2006

October 31, 2006

**Sojitz Corporation (Former Sojitz Holdings Corporation)**

(URL <http://www.sojitz.com>)

Listed stock exchange : The first sections of Tokyo and Osaka  
Headquarters : Tokyo  
Securities Code : 2768  
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1. Consolidated Financial Results for the Interim Period ended September 30, 2006

(1) Consolidated Operating Results (Rounded to millions of Japanese Yen)

	Net Sales		Operating Income		Recurring Profit		Net Income	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
For the Interim Period ended September 30, 2006	2,529,244	7.4	39,321	3.8	46,394	8.8	31,356	21.0
ended September 30, 2005	2,354,027	4.4	37,899	15.1	42,622	65.4	25,908	-
(Ref) FY 2005	4,972,059		76,202		78,773		43,706	

	EPS	Adjusted EPS
	Yen	Yen
For the Interim Period ended September 30, 2006	60.14	35.11
ended September 30, 2005	89.61	74.49
(Ref) FY 2005	126.21	99.55

Notes:

1. Equity in Earnings of Unconsolidated subsidiaries and affiliate during the period: (Millions of Yen)

Current interim period : 11,602      Preceding interim period : 11,911      Last fiscal year : 19,149

2. Average number of outstanding shares during the period:

Current interim period : 521,434,081      Preceding interim period : 289,138,950      Last fiscal year : 346,172,113

3. Changes in accounting policies during the period: Yes

4. Percentage changes indicated in net sales, operating income, recurring profit and net income are compared with preceding interim period.

(2) Consolidated Financial Position

	Total Assets	Total Net Assets	Equity Ratio	Net Assets per Share
	Millions of Yen	Millions of Yen	%	Yen
As of September 30, 2006	2,685,271	584,759	20.3	24.54
September 30, 2005	2,505,214	396,540	15.8	547.0
March 31, 2006	2,521,679	426,949	16.9	368.95

Notes:

1. Number of outstanding shares at the end of the period (Common Stock):

Current interim period : 723,645,492      Preceding interim period : 401,205,565      Last fiscal year : 403,985,111

2. Number of outstanding shares at the end of the period (Preferred Stock):

Current fiscal year : 139,525,000      Preceding interim period : 165,825,000      Last fiscal year : 145,825,000

Note: The presentation of the fiscal 2005 interim and full-year figures has been indicated to conform with the fiscal 2006 presentation in accordance with change of the Japanese accounting standard. Former "Shareholders' equity" is now recorded as "total net assets;" former "shareholders' equity ratio" is now recorded as "equity ratio," and former "shareholders' equity per share" is now recorded as "net assets per share".

(3) Consolidated Statements of Cash Flows

	Operating Activities	Investing Activities	Financing Activities	Cash & Cash Equivalents at the end of the Period
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
For the Interim Period ended September 30, 2006	6,528	262,436	120,894	369,757
ended September 30, 2005	11,264	48,300	24,982	475,947
(Ref) FY 2005	43,155	99,155	55,805	506,254

(4) Number of consolidated subsidiaries and companies accounted for by the equity method

Consolidated subsidiaries: 331

Unconsolidated subsidiaries (accounted for by the equity method) : 12

Unconsolidated affiliates (accounted for by the equity method) : 188

(5) Increase/Decrease in the number of consolidated subsidiaries

Consolidated subsidiaries : (Increase) 17 companies (Decrease) 7 companies

Affiliated companies accounted for by the equity method : (Increase) 15 companies (Decrease) 7 companies

(6) Consolidated Earnings Forecast for the Fiscal Year Ending March 2007 (April 1, 2006-March 31, 2007)

	Net Sales	Recurring Profit	Net Income
	Millions of Yen	Millions of Yen	Millions of Yen
For the fiscal year ending March 31, 2007	5,300,000	89,000	56,000

(Ref) Forecast of Net income per share for the year ending March 31, 2007 : 77.39 Yen

## **Group Management Policy**

### **1. Fundamental policy**

#### **Sojitz Group Statement**

The Sojitz Group produces new sources of wealth by connecting the world's economies, cultures and people in a spirit of integrity.

#### **Group Management Vision**

- To establish a multi-faceted business, which has both top-tier competitiveness and strong earning power in specific industries and markets, by continuously pursuing profitability and growth in core business areas
- To nurture an innovative trading company, by actively responding to environmental changes and market globalization, and continuously developing new business fields through entrepreneurship
- To build a function-oriented trading company, by fully grasping and anticipating various client needs and providing sophisticated, tailor-made services as a client's business partner
- To become a flexible company, open to new ideas, where each employee can pursue challenges and explore opportunities to realize his or her own personal goals and ambitions

### **2. Fundamental policies and overview of new medium-term management plan “New Stage 2008”**

New Stage 2008, Sojitz's new medium-term management plan, aims to deliver sustained growth to boost corporate value and realize the Group Management Vision. In policy terms, the plan focuses on three strategic objectives: 1) Further enhance growth strategies, 2) Accelerate capital and financial strategies, and 3) Upgrade risk management.

Sojitz has set numerical targets for the final year of the plan (the year ending March 2009) of ¥60 billion in net income and shareholders' equity of ¥500 billion.

#### **(1) Further enhance growth strategies**

The Company will cultivate new dimensions in the growth of each business and make the mechanisms for expansion more robust. To that end, it will leverage the strengths of the Group to develop its business functions and extend investment with the aim of further expanding growth strategies and attaining sustained growth.

In terms of investment strategy, the New Stage 2008 plan calls for new investments and loans of ¥300 billion over three years into areas with strong growth potential, such as the energy and mineral resources and the automobile-related fields. In addition, the regional strategy focuses Group management resources on high-growth areas, mainly China, the United States, Vietnam, Thailand and Russia. The plan's human resources strategy focuses efforts on regular and efficient recruitment of high-quality personnel, functional assignments and future-oriented human resources development.

## (2) Accelerate capital and financial strategies

By resolving the issue of outstanding preferred shares, the Company will achieve an immediate reorganization of its capital structure. In addition, Sojitz will work towards the final targets of the management plan—a current ratio of 120% or above and a long-term debt ratio of approximately 70%—with the aim of further improving the stability of its funding structure.

## (3) Upgrade risk management

Sojitz will introduce more sophisticated risk management systems throughout its operations, fine tuning its comprehensive risk management framework. As a result, the Company will be able to manage risk and maintain a high-quality portfolio.

In the pursuit of high returns commensurate with risk, the Company is promoting widespread use of SCVA business management within the Sojitz Group as a framework to promote growth. Through such moves, Sojitz aims to maximize shareholder value and to create a healthy and highly efficient business portfolio.

## (4) Financial targets

The plan's consolidated financial performance targets are as follows.

	Year ending March 31, 2007	Year ending March 31, 2008	Year ending March 31, 2009
Net income	¥49 billion	¥53 billion	¥60 billion
Recurring profit	¥83 billion	¥90 billion	¥100 billion
Shareholders' equity	¥500 billion (Year ending March 31, 2009)		
Financial indicators	Current ratio: 120% or above (Year ending March 31, 2009)		
	Long-term debt ratio: approx. 70% (Year ending March 31, 2009)		

Note: The Company has revised its projections for financial performance for the year ending March 2007. Please refer to "Business Results and Financial Position" for further details.

### 3. Financial reorganization through elimination of preferred shares

On April 28, 2006, Sojitz concluded agreements with all relevant shareholders to repurchase all convertible preferred shares issued by the Company with conversion dates in May 2008 and beyond for a total acquisition cost of ¥342.9 billion (up to a ceiling of ¥354.1 billion depending on actual repurchase dates). The shares subject to these repurchase agreements accounted for ¥560.4 billion of the outstanding balance of ¥563.4 billion for convertible preferred shares as of September 30, 2006 after excluding the 1<sup>st</sup> Series Class III Preferred Shares (issuance value: ¥3.0 billion), which is already valid for conversion. This move promises to accelerate the capital restructuring of the Company through the elimination of outstanding preferred shares.

On May 25, 2006, in line with the preferred share repurchases, Sojitz completed the issuance of a 3<sup>rd</sup> series and 4<sup>th</sup> series of convertible bonds with stock acquisition rights (henceforth, “convertible bonds”) totaling ¥300 billion through private placement. As of September 30, 2006, common stock conversions of these bonds totaled ¥100 billion. The capital raised through the conversion of this convertible bond issue will finance the agreed preferred share purchases, thus helping to minimize the projected reduction in shareholders’ equity while allowing the Company to reinforce its capital base. The conversion of these bonds into common stock also significantly reduces the extent of the sizable projected share dilution due to the convertible preferred shares. In line with the goal of the New Stage 2008 plan to boost shareholders’ equity, Sojitz’s aims are to promote gains in shareholder value by restricting overall share dilution while at the same time lessening the impact of preferred share dividends and preemptively mitigating any risk of future escalation in preferred share repurchase costs.

#### **4. Basic policy on profit distribution**

Sojitz is committed to establishing an earnings and capital structure that can support stable and sustained dividend payments to all shareholders. The New Stage 2008 plan includes further capital restructuring through the elimination of preferred shares. Sojitz aims to set a dividend for the fiscal year ending March 2007 after taking into account progress made in capital restructuring and the need to ensure an appropriate level of retained earnings to invest in reinforcing the business base.

#### **5. Prospective challenges**

One of the most important issues that Sojitz faces is to ensure the implementation of the three core initiatives in New Stage 2008 according to plan: further enhance growth strategies, accelerate capital and financial strategies, and upgrade risk management.

To realize the first initiative, the Company has distilled into a three-year plan the growth strategies for each business based on enhancing functions and expanding business investments. Follow-up structures are also being created to execute these growth strategies.

With the second initiative, Sojitz aims to undertake financial reorganization and to improve the stability of its funding structure while disclosing to the markets the progress made in these areas under the new medium-term management plan, New Stage 2008. As explained above, the capital restructuring involves the repurchase and cancellation of preferred shares. While seeking to dampen potential share dilution, the Company is also procuring capital from external sources to minimize reduction in shareholders’ equity and to improve the financial structure.

Thirdly, Sojitz is upgrading risk management by extending previous initiatives to reform the risk control and operational management structures, the credit approval system and monitoring systems and business portfolio systems, and to construct an internal control system and compliance framework. A critical challenge is to strengthen risk management at the Group level.

The Company is promoting the greater adoption of SCVA business management within the Sojitz Group to facilitate the Group's exit from relatively unprofitable businesses and to develop a relentless focus on business areas where the Group enjoys a competitive advantage. These moves aim to reform the earnings structure and to promote the development of an improved business portfolio.

Sojitz regards the further reinforcement of management systems to support sustained Group development as a critical challenge, both to ensure consistent growth and to realize the goals established in the New Stage 2008 plan. The Company also plans to build systems and response capabilities in order to strengthen corporate governance, develop an internal control system, and undertake initiatives in the areas of corporate social responsibility (CSR) and compliance. Sojitz views such programs as key to ensuring its sustained development as a business enterprise.

## **Business Results and Financial Position**

### **1. Business results**

#### (1) Overview of first half of fiscal 2006

Supported by two major pillars of internal demand—consumer spending and capital investment—the Japanese economy expanded strongly in the six-month period ended September 30, 2006. Growth was sufficiently robust to absorb the move by the Bank of Japan in July 2006 to raise interest rates, bringing an end to the zero-rate policy. An improved employment situation and corporate growth expectations helped to underpin growth in consumer spending. Along with the expansion in capital investment, the economic recovery also continued to become more broadly based.

In the United States, the real economy maintained its underlying growth potential against the backdrop of financial policies aimed at taming inflationary pressures. Economic growth remained balanced as housing prices stabilized.

In Europe, investment in capital equipment, facilities and the construction sector helped to push up overall economic growth in Germany, France and other markets, as growth in consumer spending remained solid. The economy in the Eurozone maintained a gentle pace of expansion despite the persistent strength of the euro.

Many countries in Asia also recorded favorable growth. Higher exports continued to drive the growth of many economies, with buoyant internal demand also supporting ongoing expansion across the region. The coup staged by the military in Thailand in September had only a limited impact on economic activity.

China maintained its high rate of economic growth due to a combination of strong investment and steady growth in external demand. The central government responded by continuing to reinforce measures to restrain expansion. Meanwhile, the manufacturing sector of fast-expanding India continued to gain in power.

In terms of the overall global economy, the period was marked with concerns over the effects of persistently high prices for oil and other commodities. The outlook is for well-balanced global economic expansion to continue amid stabilizing oil prices.

In the interim period under review, consolidated net sales (total trading transactions) amounted to ¥2,529,244 million, an increase of 7.4% compared with the previous year. Sales were higher than in the previous year for all types of trading. Comparing year-on-year growth rates by category, sales from export transactions in the Energy & Mineral Resources, Machinery & Aerospace and other divisions increased 18.3%, while sales from import

transactions in the Machinery & Aerospace and other divisions grew by 7.2%. Although sales from domestic transactions within the Real Estate Development & Forest Products and Chemicals & Plastics divisions declined, the Energy & Mineral Resources, Consumer Lifestyle Business and other divisions achieved growth of 0.8%. Sales from offshore transactions rose 12.4% in the Energy & Mineral Resources, Machinery & Aerospace, Consumer Lifestyle Business, Chemicals & Plastics and other divisions.

By industry segment, net sales in the Machinery & Aerospace Division rose 23.0% in year-on-year terms, reflecting strong growth in aircraft-related and automobile-related transactions. High commodity prices enabled the Energy & Mineral Resources Division to record year-on-year sales growth of 16.5%. Other divisions posting positive year-on-year growth in sales were the Consumer Lifestyle Business Division (6.0%) and the Chemicals & Plastics Division (3.8%). Lower condominium sales resulted in an 11.3% year-on-year decline in net sales in the Real Estate Development & Forest Products Division, despite a recovery in the lumber market. Net sales at Overseas Subsidiaries also declined, falling 11.8% compared with a year earlier due to a drop in some machinery-related business in the Americas.

Consolidated gross trading profit amounted to ¥122,585 million, rising 3.3% over the previous year due to growth in the automobile-related business of the Machinery & Aerospace Division and other factors. The growth in trading profit helped to offset a rise in selling, general and administrative (SG&A) expenses due to higher personnel costs. As a result, operating income grew 3.8% to ¥39,321 million. Supported by the increase in operating income, recurring profit rose 8.8% to ¥46,394 million. This also reflected an improvement in net other income due to a drop off in provisions for investments and loans, among other factors. Extraordinary gains totaled ¥7,734 million, including gains on the sale of investment securities (¥3,404 million) and a reversal of allowance for doubtful accounts (¥1,982 million). Extraordinary losses totaling ¥12,473 million included a loss on the dissolution of subsidiaries and affiliates plus related provisions (¥8,953 million) and evaluation losses on investment securities (¥1,748 million), resulting in a net extraordinary loss of ¥4,738 million.

As a result of the above, income before income taxes and minority interests for the six months ended September 30, 2006 was ¥41,655 million. After accounting for income taxes (¥8,810 million), deferred income taxes (a credit of ¥170 million) and minority interests in consolidated subsidiaries (¥1,658 million), Sojitz Corporation posted net income for the first half of fiscal 2006 of ¥31,356 million, a year-on-year increase of 21.0%.

## (2) Consolidated results by industry segment

### *Machinery & Aerospace*

Segment net sales amounted to ¥528,587 million, a year-on-year increase of 23.0%. This reflected strong growth in aircraft-related and overseas automobile-related operations. Operating income rose 24.6% to ¥8,448 million.

#### *Energy & Mineral Resources*

Reflecting high commodity prices, segment net sales amounted to ¥664,902 million, a year-on-year increase of 16.5%. Operating income rose 14.8% to ¥9,754 million, mainly due to higher gross trading profit.

#### *Chemicals & Plastics*

Segment net sales totaled ¥322,761 million, rising 3.8% on a year-on-year basis. Operating income was broadly flat at ¥9,252 million, declining by ¥3 million due to higher SG&A expenses.

#### *Real Estate Development & Forest Products*

Although conditions in lumber markets improved, segment net sales declined 11.3% to ¥174,358 million due to slower condominium sales. Improved profits on lumber trading activities and reduced SG&A expenses resulted in a 16.1% year-on-year increase in operating income to ¥5,301 million.

#### *Consumer Lifestyle Business*

Reflecting growth in the foods business and other areas, segment net sales were 6.0% higher than a year earlier at ¥448,283 million. However, increased SG&A expenses resulted in a 25.3% drop in operating income to ¥3,101 million.

#### *Overseas Subsidiaries*

Segment net sales totaled ¥330,005 million, falling 11.8% compared with a year earlier. This partly reflected a drop in some machinery-related business in the Americas. An increase in SG&A expenses also contributed to the 40.2% year-on-year decline in operating income to ¥2,108 million.

#### *Other*

Segment net sales rose 24.3% to ¥60,344 million. Amid a recovery at IT subsidiaries, operating income increased 3.5% to ¥1,279 million.

## **2. Outlook for fiscal 2006, ending March 2007**

On October 31, 2006, Sojitz announced the following revisions to its performance outlook for fiscal 2006 (the fiscal year ending March 31, 2007), which was originally released on April 28, 2006 together with fiscal 2005 results.



(Consolidated)	April 28, 2006 forecasts	October 31, 2006 revision
Net sales	¥5,200 billion	¥5,300 billion
Recurring profit	¥83 billion	¥89 billion
Net income	¥49 billion	¥56 billion

Rationale for revision: The projected full-year figures have been revised upwards in light of interim performance.

(Non-consolidated)	April 28, 2006 forecasts	October 31, 2006 revision
Net sales	¥2,600 billion	¥2,700 billion
Recurring profit	¥32 billion	¥43 billion
Net income	¥26 billion	¥29 billion

Rationale for revision: The projected full-year figures have been revised upwards in light of interim performance and higher dividends from subsidiaries. The revised earnings projections also reflect the booking of an extraordinary loss (Loss on retirement of investments to subsidiaries through merger) related to the absorption of subsidiaries, among other factors.

The above outlook assumes an exchange rate of ¥110/US\$ and a crude oil price of US\$65/BBL (Brent).

### **Forward-looking Statements**

*The above forecasts have been calculated based on management's judgments and assumptions in accordance with information available at the time of disclosure. Accordingly, readers are advised that actual results may differ significantly from forecasts due to a wide variety of factors, including, but not limited to, changes in economic conditions in key markets in Japan and overseas and exchange rates. The Company will provide timely disclosure of any material changes or related issues.*

### **3. Financial position**

#### (1) Consolidated balance sheet

Aiming to realize the shift to a high-quality earnings structure, Sojitz continued to make progress in selectivity and focus-oriented initiatives designed to entrench the Company's business portfolio strategy. Sojitz also continued to invest resources in growth domains with the aim of raising SCVA, an internal risk/return indicator.

Sojitz is also working to improve its debt structure. Specific steps included procuring new sources of long-term funding and diversifying fund procurement through the issue of straight bonds and other instruments with the ultimate aim of achieving a more stable funding structure, as evidenced by an improved current ratio and long-term debt ratio.

In addition, in financial restructuring aimed at eliminating the large preferred share component of equity, the Company concluded agreements with relevant shareholders to repurchase convertible preferred shares for a total acquisition cost of ¥342,920 million (subject to a ceiling of ¥354,128 million, depending on actual repurchase dates). The shares subject to

these repurchase agreements accounted for ¥560.4 billion of the outstanding balance of ¥563.4 billion in preferred shares as of September 30, 2006 after excluding the 1<sup>st</sup> Series Class III Preferred Shares (issuance value: ¥3.0 billion), which is already valid for conversion.

To execute these planned preferred share repurchases, Sojitz issued two new series of convertible bonds with stock acquisition rights (the 3rd and 4th) totaling ¥300 billion. The replacement of preferred share with a bond issue convertible into common stock minimizes the reduction in shareholders' equity and restricts the overall scope of the projected share dilution due to convertible preferred shares. Through this move, Sojitz aims to accumulate shareholder equity by restricting overall share dilution while at the same time lessening the impact of preferred share dividends and preemptively mitigating any risk of future escalation in preferred share repurchase costs. Common stock conversions of the convertible bond issue totaled ¥100 billion as of September 30, 2006, and ¥110 billion as of October 31, 2006.

## (2) Consolidated cash flows

In the fiscal half-year under review, net cash provided by operating activities and financing activities was ¥6,528 million and ¥120,894 million, respectively. Net cash used in investing activities totaled ¥262,436 million. After accounting for the effects on cash and cash equivalents of currency translation adjustments and changes in the scope of consolidation, the balance of cash and cash equivalents as of September 30, 2006 was ¥369,757 million.

### *Cash flows due to operating activities*

Net cash provided by operating activities in the period under review amounted to ¥6,528 million. This represented an increase of ¥17,792 million in cash inflow compared with the same period in the previous fiscal year. The positive effects on operating cash flow of factors such as higher operating income and an increase in trade payables outweighed larger cash outflows due to increased trade receivables and inventories.

### *Cash flows due to investing activities*

Net cash used in investing activities in the period under review was ¥262,436 million, a decrease of ¥310,736 million in cash inflow compared with the same period in the previous fiscal year. Major items of cash expenditure included an increase in time deposits prior to the receipt of the proceeds from a convertible bond issue. The deposits were made in preparation for planned repurchases of preferred shares.

### *Cash flows due to financing activities*

Net cash provided by financing activities in the period under review totaled ¥120,894 million, an increase of ¥95,912 million in cash inflow compared with the same period in the previous fiscal year. Major items of cash inflow included the proceeds from a ¥300 billion convertible bond issue to finance preferred share acquisitions.

#### **4. Business and Other Risks**

The Sojitz Group is engaged in a wide and diverse range of activities including general trading; the purchase, sale and trade of goods and commodities; and the manufacture and sale of a wide variety of products in Japan and overseas. The Sojitz Group also provides comprehensive services to a variety of industries on a global scale. In addition, it is engaged in planning and arranging projects, and investing in a variety of business fields and financial activities.

In light of these activities, the Sojitz Group is confronted by numerous risks. These risks include: market risk relating to movements in foreign exchange rates, interest rates, commodity market conditions, and stock prices; credit risk relating to non-payment and collection; investment risk; country risk; and other risks. These risks are to a certain degree unpredictable, and as they cannot be accurately ascertained, can impact the performance and financial situation of the Group. Although risk can not be entirely mitigated, the Group is reinforcing and enhancing risk management to address wide-ranging business risks where possible. Sojitz recognizes that a unified and integrated approach across the Group is critical to comprehensive risk management. This also entails quantifying and monitoring risk on an ongoing basis as a vital element of operations. Additionally, the Company is building an internal control system and reinforcing the compliance structure with the aim of enhancing the management of risk that can not be quantified.

The Sojitz Group is confronted by the following risks in the execution of its daily business activities:

##### **(1) Market Risk**

The Sojitz Group is engaged in global business development and trade and is accordingly subject to a variety of market risks. Certain transactions are denominated in foreign currencies and as such are subject to exchange rate risks. The Group is also susceptible to movements in interest rates in connection with funds procurement and its investment activities. In its daily operating activities, the Group enters into purchase agreements, maintains inventories, and is exposed to commodity price risk. In addition, the Group is exposed to stock price risk due to its holdings of marketable and other securities. As a result, the Group is subject to a variety of market risks, and transactions susceptible to market risk are not limited to those identified above.

The Sojitz Group works to avoid market risk-related losses by maintaining limits on the position (short/long) a business unit may assume and by setting loss-cut points. As well as managing these positions and any related losses, the Group strictly adheres to the loss-cut rule: if a loss greater than the loss-cut point occurs, the position is immediately dissolved and

new transactions are prohibited during the applicable fiscal year. In order to offset market risks related to its general marketing and finance activities, the Group matches buying and selling transactions for commodities, adopts a matching principle for its assets and liabilities, and applies derivative financial instruments including forward foreign currency contracts, commodity futures and interest rate swaps.

## **(2) Credit Risk**

In the course of its business, the Sojitz Group extends credit facilities to a large number of customers in Japan and overseas, which in turn exposes the Group to credit risk. As part of efforts to manage and control this risk, the Sojitz Group has established an 11-tier credit assessment system. In each instance, the Group objectively determines a credit rating for each customer, and based on this rating, sets the level of credit for the individual transaction. In addition, the Group strives to implement strict security and other collateral requirements in line with the credit rating for each customer. Furthermore, the Group undertakes periodic assessment of credit risk related to deferred payment, finance and guarantee procedures based on risk/return considerations. When the risk/return is considered insufficient, steps are taken to improve returns and reduce risks.

## **(3) Investment Risk**

One of the major business activities of the Sojitz Group is investing in a variety of business fields, which are subject to changes in investment values and other risks. The Company has established a screening system to ascertain the merits and risks of each investment proposal, and a management system to follow-up investments. Clearly defined standards have also been formulated with regard to withdrawal from an investment. Through these initiatives, the Group is working to prevent and reduce loss.

The Company has established a system to adequately screen and select new business investment opportunities. On evaluating each proposal, the relevant business plan, including cash flow projections, is comprehensively examined. Profitability is also strictly assessed by setting a hurdle rate based on the internal rate of return (IRR).

Proposals that have been approved and implemented are subject to periodic review to ensure the early detection of issues and problems. In the event an issue or problem arises, steps are taken to ensure minimum loss. In addition, in order to ensure early detection and in an effort to avoid issues and problems, guidelines are established at the early stages to define acceptable risk and return, and to identify conditions for withdrawal and loss write-off.

## **(4) Country Risk**

The Sojitz Group is subject to country risk in its trading operations and activities. In order to minimize country risk, the Company avoids excessive investment exposure to any one

country or region. To this end, the Company evaluates each country and region and assigns a risk rating for each. For countries and regions with a high country risk rating, the Company sets maximum net exposure limits in proportion to the country rating and size, within which the Company operates.

In addition, for countries allocated a high country risk rating, country risk avoidance measures such as trade insurance are implemented for each proposal.

**Consolidated Statements of Income**  
for the interim period ended September 30, 2006

Millions of yen

	Interim Period ended September 30, 2006	Percentage of Net sales (%)	Interim Period ended September 30, 2005	Percentage of Net sales (%)	Difference	
					Amount	Percentage
<b>Net sales</b>	<b>2,529,244</b>	<b>100.00</b>	2,354,027	100.00	175,217	7.44
Cost of sales	(2,406,658)	(95.15)	(2,235,356)	( 94.96 )	(171,302)	7.66
<b>Gross trading profit</b>	<b>122,585</b>	<b>4.85</b>	118,670	5.04	3,915	3.30
Selling, general and administrative expenses	(83,264)	(3.30)	(80,771)	( 3.43 )	(2,493)	3.09
<b>Operating income</b>	<b>39,321</b>	<b>1.55</b>	37,899	1.61	1,422	3.75
Interest income	7,307	0.29	6,305	0.27	1,002	15.89
Dividends	3,513	0.14	4,427	0.19	(914)	(20.65)
Equity in earnings of unconsolidated subsidiaries and affiliates	11,602	0.46	11,911	0.51	(309)	(2.59)
Other income	9,976	0.39	11,841	0.49	(1,865)	(15.75)
Non-operating income	32,400	1.28	34,485	1.46	(2,085)	(6.05)
Interest expense	(19,602)	(0.78)	(18,514)	( 0.79 )	(1,088)	5.88
Interest expense on commercial papers	(58)	0.00	(1,292)	( 0.05 )	1,234	(95.51)
Other expenses	(5,667)	(0.22)	(9,954)	( 0.42 )	4,287	(43.07)
Non-operating expense	(25,327)	(1.00)	(29,761)	( 1.26 )	4,434	(14.90)
<b>Recurring profit</b>	<b>46,394</b>	<b>1.83</b>	42,622	1.81	3,772	8.85
Extraordinary income/(loss)-net	(4,738)	(0.18)	(2,121)	( 0.09 )	(2,617)	123.39
<b>Income before income taxes</b>	<b>41,655</b>	<b>1.65</b>	40,501	( 1.72 )	1,154	2.85
Income taxes; Current	(8,810)	(0.35)	(9,786)	( 0.42 )	976	(9.97)
Deferred	170	0.01	(3,129)	( 0.13 )	3,299	-
Minority interests in consolidated subsidiaries	(1,658)	(0.07)	(1,678)	( 0.07 )	20	(1.19)
<b>Net Income</b>	<b>31,356</b>	<b>1.24</b>	25,908	1.10	5,448	21.03

**Extraordinary Income and Loss**  
for the Interim Period ended September 30, 2006

Millions of yen

	Interim Period ended September 30, 2006	Interim Period ended September 30, 2005	Increase/ Decrease
<b>Extraordinary Income;</b>			
Gain on sale of disposal of properties	1,734	3,049	(1,315)
Gain on sale of investment securities	3,404	3,913	(509)
Gain on sale of investments in partnership	180	-	180
Dilution gain from changes in equity-interests	95	-	95
Reversal of allowance for doubtful accounts	1,982	5,271	(3,289)
Gain on sale of certain overseas receivables	30	-	30
Gain on bad debt recovered	305	110	195
<b>Total extraordinary income</b>	<b>7,734</b>	<b>12,345</b>	<b>(4,611)</b>
<b>Extraordinary Loss;</b>			
Loss on sale and disposal of properties	(911)	(843)	(68)
Impairment loss on fixed assets	(692)	(1,887)	1,195
Loss on sale of investment securities	(23)	(3,201)	3,178
Loss on sale of investments in partnership	(1)	-	(1)
Evaluation loss on investment securities	(1,748)	(386)	(1,362)
Dilution loss from changes in equity-interests	(4)	-	(4)
Loss, and provision for loss on dissolution of subsidiaries and affiliates	(8,953)	(5,434)	(3,519)
Special early retirement benefits	(136)	-	(136)
Restructuring loss	-	(2,713)	2,713
<b>Total extraordinary loss</b>	<b>(12,473)</b>	<b>(14,466)</b>	<b>1,993</b>
<b>Extraordinary income/loss, net</b>	<b>(4,738)</b>	<b>(2,121)</b>	<b>(2,617)</b>

Reference: the following accounts are not included in the above extraordinary items.

Provision for doubtful receivables	(189)	(395)	206
(Included in Selling, general & administrative expenses)			

## Consolidated Balance Sheets

As of September 30, 2006

<b>Assets</b>	September 30, 2006	March 31, 2006	Millions of yen Increase/ Decrease
<b>Current assets;</b>			
Cash and deposits	675,323	521,937	153,386
Trade notes and trade accounts receivable	631,698	613,513	18,185
Securities	6,771	6,471	300
Inventories	248,496	214,163	34,333
Short-term loans receivable	20,718	44,237	(23,519)
Deferred tax assets-current	7,155	8,886	(1,731)
Other current assets	118,749	116,416	2,333
Allowance for doubtful receivables	(11,946)	(15,172)	3,226
<b>Total current assets</b>	<b>1,696,966</b>	<b>1,510,454</b>	<b>186,512</b>
<b>Fixed assets;</b>			
Tangible assets	233,095	246,665	(13,570)
Intangible assets;	95,738	100,131	(4,393)
Goodwill	72,010	76,897	(4,887)
Other intangible assets	23,727	23,233	494
Investments and other fixed assets;	657,363	663,403	(6,040)
Investments securities	469,039	488,291	(19,252)
Long-term loans receivable	48,260	38,867	9,393
Non-performing receivables	165,256	176,527	(11,271)
Deferred tax assets-non-current	35,529	23,880	11,649
Others	58,824	58,793	31
Allowance for doubtful receivables	(119,549)	(122,956)	3,407
<b>Total fixed assets</b>	<b>986,196</b>	<b>1,010,200</b>	<b>(24,004)</b>
<b>Deferred assets</b>	<b>2,109</b>	<b>1,024</b>	<b>1,085</b>
<b>Total assets</b>	<b>2,685,271</b>	<b>2,521,679</b>	<b>163,592</b>



**Consolidated Balance Sheets**  
As of September 30, 2006

<b>Liabilities and net assets</b>	Millions of yen		
	September 30, 2006	Marchi 31, 2006	Increase/ Decrease
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade notes and trade accounts payable	490,461	451,438	39,023
Short-term loans payable	447,514	545,072	(97,558)
Commercial paper	21,900	29,200	(7,300)
Current portion of long-term loans payable	191,410	239,841	(48,431)
Income taxes payable	7,049	7,774	(725)
Deferred tax liabilities-current	63	41	22
Allowance for employees' bonus	6,943	5,148	1,795
Other current liabilities	124,873	138,198	(13,325)
<b>Total current liabilities</b>	<b>1,290,217</b>	<b>1,416,716</b>	<b>(126,499)</b>
<b>Non-current liabilities;</b>			
Bonds, less current portion	331,372	99,036	232,336
Long-term loans payable	414,298	473,109	(58,811)
Deferred tax liabilities -non-current	15,339	13,553	1,786
Deferred tax liabilities -revaluation	1,262	445	817
Allowance for retirement benefits	23,659	25,558	(1,899)
Other non-current liabilities	24,361	29,185	(4,824)
<b>Total non-current liabilities</b>	<b>810,294</b>	<b>640,887</b>	<b>169,407</b>
<b>Total liabilities</b>	<b>2,100,512</b>	<b>2,057,603</b>	<b>42,909</b>
<b>Minority Interests</b>	-	37,125	-
<b>Shareholders' equity</b>			
Common and Preferred stock	-	130,549	-
Capital surplus	-	166,754	-
Retained earnings	-	92,487	-
Revaluation difference on land	-	(2,619)	-
Net unrealized gains on available-for-sale securities	-	90,547	-
Valuation difference on available-for-sale securities	-	(50,655)	-
Treasury stock	-	(113)	-
<b>Total shareholders' equity</b>	-	<b>426,949</b>	-
<b>Total liabilities, minority interest and shareholders' equity</b>	-	<b>2,521,679</b>	-
<b>Owners' equity;</b>			
Common and preferred stock	60,127	-	-
Capital surplus	337,177	-	-
Retained earnings	122,464	-	-
Treasury stock	(119)	-	-
<b>Total owners' equity</b>	<b>519,649</b>	-	-
<b>Valuation and translation adjustments;</b>			
Valuation difference on available-for-sale securities	77,940	-	-
Deferred gains or losses on hedges	1,200	-	-
Revaluation difference on land	(1,981)	-	-
Foreign currency translation adjustments	(51,164)	-	-
<b>Total valuation and translation adjustments</b>	<b>25,995</b>	-	-
<b>Minority Interests;</b>	<b>39,114</b>	-	-
<b>Total net assets</b>	<b>584,759</b>	-	-
<b>Total liabilities and net assets</b>	<b>2,685,271</b>	-	-

**Consolidated Statements of Cash Flows**  
for the Interim Period ended September 30, 2006

	Interim Period ended September 30, 2006	Interim Period ended September 30, 2005	Millions of yen Increase/ Decrease
<b>Operating activities;</b>			
Gain before income taxes and minority interests	41,655	40,501	1,154
Depreciation and amortization	10,946	10,912	34
Loss on revaluation of securities	1,748	386	1,362
Increase in allowance for doubtful receivables	(6,739)	(53,099)	46,360
Interest and dividend income	(10,821)	(10,732)	(89)
Interest expense	19,660	19,807	(147)
Equity in earnings of unconsolidated subsidiaries and affiliates	(11,602)	(11,911)	309
Gain/loss on sale of securities	(5,086)	(2,547)	(2,539)
Gain/loss on sale and disposal of property & equipment	(823)	(2,205)	1,382
Increase/decrease in trade receivables	(27,920)	23,989	(51,909)
Increase/decrease in inventories	(34,703)	(17,165)	(17,538)
Increase/decrease in trade payables	43,238	(32,268)	75,506
Other, net	(13,024)	23,068	(36,092)
<b>Net cash provided by operating activities</b>	<b>6,528</b>	<b>(11,264)</b>	<b>17,792</b>
<b>Investing Activities</b>			
Increase/decrease in time deposit, net	(290,266)	(1,339)	(288,927)
Increase/decrease in marketable securities, net	6	1,802	(1,796)
Payments for property & equipment	(7,570)	(12,366)	4,796
Proceeds from sale of property & equipment	10,900	8,764	2,136
Payments for purchase of investment securities	(10,705)	(7,991)	(2,714)
Proceeds from sale of investment securities	21,441	17,728	3,713
Increase/decrease in short - term loans receivable, net	25,320	17,730	7,590
Increase of long - term loans receivable	(15,589)	(5,381)	(10,208)
Collection of long-term loans receivable	2,028	14,887	(12,859)
Other, net	1,997	14,467	(12,470)
<b>Net cash provided by investing activities</b>	<b>(262,436)</b>	<b>48,300</b>	<b>(310,736)</b>
<b>Financing activities</b>			
Increase/decrease in short-term debt, net	(96,687)	(165,550)	68,863
Decrease in commercial paper, net	(7,300)	(55,400)	48,100
Proceeds from long-term debt	32,706	233,761	(201,055)
Repayments of long-term debt	(129,978)	(100,783)	(29,195)
Proceeds from issuance of bonds	334,775	124,169	210,606
Redemption of bonds	(10,889)	(10,927)	38
Other, net	(1,731)	(287)	(1,444)
<b>Net cash used in financing activities</b>	<b>120,894</b>	<b>24,982</b>	<b>95,912</b>
Effect of Exchange Rate Changes on Cash & Cash Equivalents	(1,800)	4,687	(6,487)
<b>Net Decrease in Cash &amp; Cash Equivalents</b>	<b>(136,813)</b>	<b>66,706</b>	<b>(203,519)</b>
Cash & cash Equivalents at the Beginning of the Period	506,254	409,266	96,988
Effect of Change in Scope of Consolidation	316	(24)	340
<b>Cash &amp; Cash Equivalents at the End of the Period</b>	<b>369,757</b>	<b>475,947</b>	<b>(106,190)</b>

## Segment Information

for the Interim Period ended September 30, 2006

### Industry Segments

The industry segment information for the interim period ended September 30, 2006 and preceding interim period are as follows:

**Interim Period ended September 30, 2006**

Millions of yen

	Machinery & Aerospace	Energy & Mineral Resources	Chemicals & Plastics	Real Estate Development & Forest Products	Consumer Lifestyle Business	Overseas Subsidiaries
Net sales						
Outside customers	528,587	664,902	322,761	174,358	448,283	330,005
Inter-segment	4,137	4,065	22,429	1,066	7,167	178,556
<b>Total</b>	<b>532,725</b>	<b>668,968</b>	<b>345,191</b>	<b>175,424</b>	<b>455,451</b>	<b>508,562</b>
Operating expense	524,276	659,213	335,938	170,123	452,349	506,454
Operating income	8,448	9,754	9,252	5,301	3,101	2,108
Total assets (As of September 30, 2006)	334,523	464,660	378,199	243,427	293,845	372,360

	Other	Total	Elimination & Unallocated	Consolidated
Net sales				
Outside customers	60,344	2,529,244	-	2,529,244
Inter-segment	12,641	230,065	( 230,065 )	-
<b>Total</b>	<b>72,986</b>	<b>2,759,310</b>	<b>( 230,065 )</b>	<b>2,529,244</b>
Operating expense	71,706	2,720,062	( 230,139 )	2,489,922
Operating income	1,279	39,247	74	39,321
Total assets (As of September 30, 2006)	147,861	2,234,879	450,392	2,685,271

Notes:

1. Unallocated costs and expenses included in "Elimination or Unallocated" totaled 235 millions of yen and comprised mainly administrative group expenses.
2. Company assets included in "Elimination or Unallocated" totaled 611,088 millions of yen and comprised mainly managed surplus (cash and deposits and bonds, and investment securities) of the Company.

## Segment Information

for the Interim Period ended September 30, 2006

### Industry Segments (Continued)

(Ref.) Interim period ended September 30, 2005

Millions of yen

	Machinery & Aerospace	Energy & Mineral Resources	Chemicals & Plastics	Real Estate Development & Forest Products	Consumer Lifestyle Business	Overseas Subsidiaries
Net sales						
Outside customers	429,706	570,964	310,869	196,628	422,992	374,325
Inter-segment	7,479	13,995	22,201	1,466	6,584	162,561
Total	437,185	584,959	333,071	198,095	429,576	536,887
Operating expense	430,403	576,466	323,815	193,530	425,426	533,358
Operating income (loss)	6,781	8,493	9,255	4,565	4,150	3,528
Total assets (As of March 31, 2005)	325,062	462,958	360,939	232,052	292,281	441,054

	Other	Total	Elimination & Unallocated	Consolidated
Net sales				
Outside customers	48,540	2,354,027	-	2,354,027
Inter-segment	19,460	233,750	( 233,750 )	-
Total	68,001	2,587,778	( 233,750 )	2,354,027
Operating expense	66,764	2,549,766	( 233,638 )	2,316,128
Operating income (loss)	1,236	38,012	( 112 )	37,899
Total assets (As of March 31, 2005)	176,164	2,290,514	231,165	2,521,679

Notes:

1. Unallocated costs and expenses included in "Elimination or Unallocated" totaled 1,585 millions of yen and comprised mainly administrative group expenses applicable to former Sojitz Corporation
2. Company assets included in "Elimination or Unallocated" totaled 447,487 millions of yen and comprised mainly managed surplus (cash and deposits and bonds, and investment securities) of the Company.

**Segment Information**  
for the Interim Period ended September 30, 2006

**Geographic Segments**

The geographic segment information for the interim period ended September 30, 2006 and preceding interim period are as follows:

**Interim Period ended September 30, 2006**

Millions of yen

	Japan	North America	Europe	Asia & Oseania	Other	Total	Elimination & Unallocated	Consolidated
Net sales								
Outside customers	1,911,932	166,504	82,475	331,539	36,792	2,529,244	-	2,529,244
Inter-area	167,654	52,249	14,280	121,500	151	355,836	( 355,836 )	-
Total	2,079,587	218,754	96,756	453,039	36,943	2,885,081	( 355,836 )	2,529,244
Operating expense	2,061,320	214,964	92,231	444,490	33,335	2,846,343	( 356,420 )	2,489,922
Operating income	18,267	3,789	4,524	8,548	3,608	38,738	583	39,321
Total assets (As of September 30, 2006)	1,924,724	158,477	157,560	274,691	52,591	2,568,045	( 117,226 )	2,685,271

Notes:

- Countries and regions are categorized by geographical classification.
- The principal regions and countries included in each geographic segments are as follows:

North America:	United States and Canada
Europe:	UK and Russia
Asia & Oseania:	Singapore and China
Other:	Central and South America and Africa

3. Unallocated costs and expenses included in "Elimination or Unallocated" totaled 235 millions of yen and comprised mainly administrative group expenses.

4. Company assets included in "Elimination or Unallocated" totaled 611,088 millions of yen and comprised mainly managed surplus (cash and deposits and bonds, and investment securities) of the Company.

**(Ref.) Six-month Period ended September 30, 2005**

Millions of yen

	Japan	North America	Europe	Asia & Oseania	Other	Total	Elimination or Unallocated	Consolidated
Net sales								
Outside customers	1,797,942	184,796	73,717	276,525	21,045	2,354,027	-	2,354,027
Inter-area	147,650	55,700	21,910	106,962	85	332,309	( 332,309 )	-
Total	1,945,592	240,497	95,627	383,487	21,130	2,686,336	( 332,309 )	2,354,027
Operating expense	1,927,058	234,858	92,947	376,879	16,967	2,648,711	( 332,583 )	2,316,128
Operating income	18,533	5,638	2,680	6,608	4,163	37,624	274	37,899
Total assets (As of March 31, 2005)	1,884,885	199,846	176,432	272,107	47,265	2,580,538	( 58,859 )	2,521,679

Notes:

- Countries and regions are categorized by geographical classification.
- The principal regions and countries included in each geographic segments are as follows:

North America:	United States and Canada
Europe:	UK and Germany
Asia & Oseania:	Singapore and China
Other:	Africa and Central and South America

3. Unallocated costs and expenses included in "Elimination or Unallocated" totaled 1,585 millions of yen and comprised mainly administrative group expenses applicable to former Sojitz Corporation.

4. Company assets included in "Elimination or Unallocated" totaled 447,487 millions of yen and comprised mainly managed surplus (cash and deposits and bonds, and investment securities) of the Company.